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SUBJECT: KAZAKHSTAN: MINISTER OF ECONOMY SUPPORTS CLOSER
COOPERATION WITH U.S. GOVERNMENT

REF: (A) 08 ASTANA 2547
(B) 08 ASTANA 2320
(C) ASTANA 0068
(D) 08 ASTANA 2226

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¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: On January 23, the Ambassador met Minister of Economy and Budget Planning Bakhyt Sultanov and discussed the government's response to the financial crisis, the new tax code, administrative barriers to doing business, the joint U.S.-Kazakhstani Program for Economic Development (PED), and the transportation and storage of spent fuel from the decommissioned BN-350 breeder reactor. The Minister said the government has set aside funds to continue PED for an additional three years, if the U.S. government is also willing to contribute to the program. He declined to specify the amount of money Kazakhstan will provide for the safe storage of BN-350 spent fuel, but did say the government is committed to the program, which he argued will require an expensive, comprehensive solution. The Minister also requested U.S. government support for the second annual International Economic Forum, to be held in Astana on March 11-12, and confirmed that the government will honor tax stability clauses in existing contracts, an issue of particular concern to international oil companies. END SUMMARY.

THE NEXT GENERATION IS HERE AND NOW

¶3. (SBU) The Ambassador met for nearly ninety minutes with Minister Sultanov, an accomplished and articulate 37-year old technocrat with degrees in electrical engineering and economics. Sultanov has spent his entire career in government and has advanced rapidly through the ranks of the Ministry of Finance (1994-2002) and Ministry of Economy and Budget Planning, where he has served as Minister since August 2007. Sultanov's most striking characteristic is his youthful appearance, although he does not appear to be overwhelmed by the authority of his office. During a long, comprehensive, and candid

briefing, Sultanov spoke expertly on a wide-range of complex issues. Throughout, he was relaxed, composed, and self-confident, without hubris or arrogance. He listened politely, smiled frequently, spoke English easily, removed his stylish glasses to underscore a point, and joked with the Ambassador that government bureaucracy can be both a hindrance and a convenience, recognizing that it does provide checks and balances.

14. (SBU) Sultanov brought a large team to the meeting, including Baurzhan Tortayev, Director for International Policy, who is responsible for coordination with USAID; Zhamilya Tokabekova, Director of Budget Policy and Planning; Saltanat Kuzganova, Director of International Relations; Mirsakasim Baibekov, Director of Industrial Development, who covers manufacturing industries in the so-called "real economy"; Alibek Bakayev, Chief of Protocol; and Zhikar Yulianova, Press Secretary. The assembled officials appeared even younger than the Minister, with the exception of Baibekov, who is in his mid-50s and played the role of elder statesman and senior advisor.

HIGH PRAISE FOR PED

15. (SBU) Sultanov expressed his government's high regard for the joint Program for Economic Development (PED) and said the Ministry plans to continue funding the program, scheduled to end in 2009, for an additional three years, if the U.S. government continues to contribute as well. (NOTE: Sultanov did not say what percentage of future costs he expected the U.S. government to cover. END NOTE). He said the Ministry has already consulted with all relevant administrative and government agencies to lay the groundwork for a three-year extension. Sultanov said that if both governments decide to extend PED, they will need to prepare a report documenting the results of previous project activities. "We must make the business case to the Prime Minister and parliament," he said, adding that the Ministry recently submitted similar reports on joint activities with

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the World Bank, the European Union, and the OECD. Sultanov said the process of identifying, developing, implementing, and monitoring a project can be long and bureaucratic, but said the Ministry is willing to make the necessary investment of time and money to deliver lasting results. "We are results-oriented," emphasized Sultanov. The Ambassador praised PED, said we will consider the request for an extension seriously, and promised to get back to the Minister. (NOTE: See reftel A for post's proposed approach to extending PED for three additional years. END NOTE.)

FRIENDLY COMPETITION

16. (SBU) Sultanov said the government takes very seriously the various international rankings and indices used to assess economic performance. In particular, he cited the World Bank's Doing Business index and the World Economic Forum's Competitiveness index. He said they have helped to stimulate administrative reforms that he hopes will lower barriers to business growth. Sultanov confided that colleagues in the government of Kyrgyzstan also monitor their government's ranking on these indices and acknowledged that there is a friendly competition to join the ranks of the top 30 countries. Sultanov emphasized, however, that the ranking itself is less important than the results of reforms. "The rating is a convenient way for external observers to assess the business climate," but what really matters is the reality on the ground. Sultanov said his team is currently working to combine the various international indicators into a single, comprehensive index that will track Kazakhstan's progress toward its goal of developing an open, diverse, competitive economy.

SOCIAL PROGRAMS PARAMOUNT

17. (SBU) Sultanov said that Kazakhstan was one of the first countries in the world to experience the effects of the global financial crisis, having suffered through the August 2007 banking crisis (reftel B). He argued that the lessons learned during this earlier crisis helped to prepare the government for the broader events of 2008. Sultanov said the abrupt end to external borrowing seriously affected Kazakhstan's banking sector, while the high price

of oil in the fall of 2008 constrained plans to diversify the economy. In a comprehensive thirty-minute presentation, Sultanov summarized the government's anti-crisis program, which has been previously reported (reftel C). He confirmed that the government's projected GDP growth rate in 2009 is from one to three percent, with two percent growth the consensus opinion of the Ministry and the International Monetary Fund. He also confirmed that the government has based its current three-year budget on the assumption that oil prices will average \$40 per barrel.

18. (SBU) In a moment of surprising candor, Minister Sultanov admitted that the government "missed an early opportunity" to take care of individual apartment owners whose buildings have not yet been finished. (NOTE: Sultanov was referring to the so-called "dolshiki," or those who are owed apartments but have not yet received them. A significant number have become grass-roots social activists and have gained increasing attention and influence over the past nine to twelve months through public protests. END NOTE). Sultanov claimed that the government is now responding very quickly and ably to the needs of the dolshiki and stressed that the government's anti-crisis program guarantees funding for all essential social programs; other programs will be funded only if they have a "multiplier effect" on economic growth and unemployment, he said.

PROMISES, PROMISES

19. (SBU) When asked whether the government would provide the minimum amount (\$5 million) required this year to transport spent fuel from the BN-250 breeder reactor in Aktau to its long-term storage site near Semipalatinsk, Sultanov hesitated and, for the first time, asked for guidance. He turned and whispered a question

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to Baibekov, Director of Industrial Development, who shook his head in response. Sultanov then told the Ambassador, "I'm sorry, but I don't have all the details about this program at the moment." Sultanov did say, however, that \$5 million alone would not solve the problem of transport of the spent fuel and its long-term storage, and called for a long-term, comprehensive solution, which he admitted would be very expensive, costing as much as \$500 million. "We cannot commit to this amount of funding right now," he said, "but we will maintain current safety measures and will begin to develop a more comprehensive solution." (COMMENT: Sultanov was clearly not briefed on the details of the BN-350 program, including the fact that the U.S. government is bearing a significant portion of program expenses. END COMMENT.)

TCO TAX STABILITY GUARANTEED

110. (SBU) EconOff asked the Minister whether international oil companies with tax stability clauses in existing contracts should pay taxes according to the terms of their contracts or according to the new Tax Code, adopted earlier this year (reftel D). Sultanov responded that the new Tax Code will certainly alter the tax regime of new contracts, but companies with contracts containing tax stability clauses -- he specifically mentioned Tengizchevroil (TCO), in which Chevron owns 50% and ExxonMobil owns 20% -- will be protected and should continue to pay taxes according to the terms of their contracts.

INTERNATIONAL ECONOMIC FORUM

111. (SBU) In closing, Sultanov announced that the government will host the second annual International Economic Forum in Astana on March 11-12, and asked for the support and assistance of the U.S. government. The Minister said that he had just received confirmation that morning that President Nazarbayev would open the conference and he said the keynote speakers would be Columbia University professors Edmund Phelps and Robert Mundell, who won the Nobel Prize for Economics in 2006 and 1999, respectively. The Ambassador said that he would certainly support the event and would encourage colleagues in the U.S. government and other diplomatic missions to participate.

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